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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

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# FORM 10-Q

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(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ..... to .....
Commission File Number 1-7584

# TRANSCONTINENTAL GAS PIPE LINE CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 74-1079400<br>(I.R.S. Employer Identification No.) |
| 2800 Post Oak Boulevard<br>P. O. Box 1396<br>Houston, Texas<br>(Address of principal executive offices) | 77251<br>(Zip Code) |

Registrant's telephone number, including area code (713) 439-2000

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

The number of shares of Common Stock, par value $1.00 per share, outstanding as of June 30, 1992 was 100.

## PART I — FINANCIAL INFORMATION

**Item 1.** ***Financial Statements.***

**Company or group of companies for which report is filed:**

**TRANSCONTINENTAL GAS PIPE LINE CORPORATION (TGPL)**

The condensed financial statements included herein have been prepared by TGPL, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of TGPL's management, however, all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial position as of the date and results of operations for the periods included herein have been made and the disclosures contained herein are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements, notes thereto and management's discussion contained in Items 7 and 8 of TGPL's 1991 Annual Report on Form 10-K and included in TGPL's 1992 First Quarter Report on Form 10-Q.

## TRANSCONTINENTAL GAS PIPE LINE CORPORATION

### CONDENSED BALANCE SHEET
(Thousands of Dollars)

| | June 30, 1992 | December 31, 1991 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 2,327 | $ 23,928 |
| Receivables | 49,733 | 73,792 |
| Advances to Transco | — | 3,196 |
| Transportation and exchange gas receivable: | | |
| Affiliates | — | 512 |
| Others | — | 5,188 |
| Producer settlement costs recoverable from customers | 57,472 | 53,400 |
| Inventories | 69,533 | 72,520 |
| Prepaid gas purchases | 2,458 | 4,331 |
| Deferred income tax benefits | 1,851 | 30,850 |
| Other | 15,558 | 12,185 |
| Total current assets | 198,932 | 279,902 |
| Property, Plant and Equipment, at cost: | | |
| Natural gas transmission plant | 4,101,580 | 4,061,869 |
| Less — Accumulated depreciation and amortization | 2,335,316 | 2,276,529 |
| Property, plant and equipment, net | 1,766,264 | 1,785,340 |
| Other Assets: | | |
| Producer settlement costs recoverable from customers | — | 35,243 |
| Transportation and exchange gas receivable: | | |
| Affiliates | 12,749 | 13,656 |
| Others | 151,319 | 138,361 |
| Notes receivable | 15,723 | 15,723 |
| Prepaid gas purchases | 4,076 | 4,076 |
| Other | 88,023 | 86,604 |
| Total other assets | 271,890 | 293,663 |
| | $2,237,086 | $2,358,905 |

The accompanying condensed notes are an integral part of these condensed financial statements.

TRANSCONTINENTAL GAS PIPE LINE CORPORATION

CONDENSED BALANCE SHEET
(Thousands of Dollars)

| | June 30, 1992 | December 31, 1991 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | $ 39,556 | $ 44,600 |
| Payables | 125,454 | 149,488 |
| Transportation and exchange gas payable: | | |
| Affiliates | — | 36 |
| Others | — | 3,764 |
| Accrued liabilities | 110,350 | 116,055 |
| Reserve for producer settlements, legal and regulatory issues | 72,748 | 170,239 |
| Reserve for rate matters | 106,160 | 106,267 |
| Other | 27,928 | 10,367 |
| Total current liabilities | 482,196 | 600,816 |
| Long-Term Debt, less current maturities | 665,634 | 686,064 |
| Other Liabilities and Deferred Credits: | | |
| Income taxes | 273,061 | 295,212 |
| Income taxes refundable to customers | 48,208 | 53,391 |
| Transportation and exchange gas payable: | | |
| Affiliates | 932 | 1,139 |
| Others | 111,981 | 117,634 |
| Other | 66,887 | 73,800 |
| Total other liabilities and deferred credits | 501,069 | 541,176 |
| Commitments and contingencies | | |
| Cumulative Redeemable Preferred Stock, without par value: | | |
| Authorized 10,000,000 shares: | | |
| Stated value $100 per share, issued and outstanding 1,029,893 and 1,060,586 shares in 1992 and 1991, respectively | 102,989 | 106,059 |
| Less — Issue expense | 766 | 811 |
| Total preferred stock | 102,223 | 105,248 |
| Cumulative Redeemable Second Preferred Stock, without par value: | | |
| Authorized 2,000,000 shares; none issued or outstanding | — | — |
| Common Stockholder's Equity: | | |
| Common stock $1.00 par value: 100 shares authorized, issued and outstanding | — | — |
| Premium on capital stock and other paid-in capital | 190,816 | 152,370 |
| Retained earnings | 295,148 | 273,231 |
| Total common stockholder's equity | 485,964 | 425,601 |
| | $2,237,086 | $2,358,905 |

The accompanying condensed notes are an integral part of these condensed financial statements.

## TRANSCONTINENTAL GAS PIPE LINE CORPORATION

### CONDENSED STATEMENT OF INCOME
(Thousands of Dollars)

| | Three Months Ended June 30, | |
|---|---|---|
| | 1992 | 1991 |
| Operating Revenues: | | |
| Natural gas sales | $134,651 | $131,932 |
| Natural gas transportation | 147,970 | 119,122 |
| Other | 1,382 | 1,865 |
| Total operating revenues | 284,003 | 252,919 |
| Operating Costs and Expenses: | | |
| Cost of natural gas sales | 105,616 | 93,163 |
| Cost of natural gas transportation | 16,328 | 9,513 |
| Operation and maintenance | 45,346 | 43,625 |
| Administrative and general | 31,235 | 32,869 |
| Provision for regulatory issues | — | 10,000 |
| Provision for asset impairments | — | 10,071 |
| Depreciation and amortization | 28,337 | 27,016 |
| Taxes — other than income taxes | 8,182 | 7,305 |
| Total operating costs and expenses | 235,044 | 233,562 |
| Operating Income | 48,959 | 19,357 |
| Other (Income) and Other Deductions: | | |
| Interest expense — affiliates | 389 | 13 |
| — other | 17,632 | 20,638 |
| Interest income — affiliates | (11) | (756) |
| — other | (1,687) | (2,582) |
| Allowance for equity and borrowed funds used during construction (AFUDC) | (1,548) | (3,901) |
| Miscellaneous other (income) and deductions, net | 2,008 | 2,943 |
| Total other (income) and other deductions | 16,783 | 16,355 |
| Income Before Income Taxes | 32,176 | 3,002 |
| Provision for Income Taxes | 10,921 | 182 |
| Net Income | 21,255 | 2,820 |
| Dividends on Preferred Stock | 2,161 | 2,216 |
| Common Stock Equity in Net Income | $ 19,094 | $ 604 |

The accompanying condensed notes are an integral part of these condensed financial statements.

## TRANSCONTINENTAL GAS PIPE LINE CORPORATION

### CONDENSED STATEMENT OF INCOME
(Thousands of Dollars)

| | Six Months Ended June 30, | |
|---|---|---|
| | 1992 | 1991 |
| Operating Revenues: | | |
| Natural gas sales | $265,036 | $321,666 |
| Natural gas transportation | 305,724 | 246,342 |
| Other | 2,892 | 3,870 |
| Total operating revenues | 573,652 | 571,878 |
| Operating Costs and Expenses: | | |
| Cost of natural gas sales | 212,599 | 234,424 |
| Cost of natural gas transportation | 31,850 | 20,519 |
| Operation and maintenance | 87,433 | 91,169 |
| Administrative and general | 63,330 | 65,298 |
| Provision for producer settlements, legal and regulatory issues | 31,000 | 10,000 |
| Provision for asset impairments | — | 10,071 |
| Depreciation and amortization | 56,562 | 53,813 |
| Taxes — other than income taxes | 16,440 | 14,731 |
| Total operating costs and expenses | 499,214 | 500,025 |
| Operating Income | 74,438 | 71,853 |
| Other (Income) and Other Deductions: | | |
| Interest expense — Transition Cost proceeding | 778 | — |
| — affiliates | 597 | 13 |
| — other | 37,614 | 41,720 |
| Interest income — affiliates | (127) | (3,189) |
| — other | (3,959) | (6,983) |
| Allowance for equity and borrowed funds used during construction (AFUDC) | (3,426) | (6,930) |
| Miscellaneous other (income) and deductions, net | 4,220 | 5,586 |
| Total other (income) and other deductions | 35,697 | 30,217 |
| Income Before Income Taxes | 38,741 | 41,636 |
| Provision for Income Taxes | 12,464 | 13,582 |
| Net Income | 26,277 | 28,054 |
| Dividends on Preferred Stock | 4,360 | 4,510 |
| Common Stock Equity in Net Income | $ 21,917 | $ 23,544 |

The accompanying condensed notes are an integral part of these condensed financial statements.

## TRANSCONTINENTAL GAS PIPE LINE CORPORATION

## CONDENSED STATEMENT OF CASH FLOWS
**(Thousands of Dollars)**

| | Six Months Ended June 30 | |
|---|---|---|
| | 1992 | 1991 |
| Cash flows from operating activities: | | |
| Net income | $ 26,277 | $ 28,054 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 63,660 | 59,598 |
| Deferred income taxes | 1,664 | (21,094) |
| Transition Cost refund | (74,104) | — |
| Provision for producer settlements, legal and regulatory issues | 31,000 | 10,000 |
| Provision for asset impairments | — | 10,071 |
| Nonrecoverable producer settlements | (58,660) | (45,681) |
| Trans$tock compensation expense | 2,437 | 3,778 |
| Allowance for equity funds used during construction | (1,054) | (4,572) |
| (Increase) decrease in: | | |
| Receivables | 22,434 | 14,182 |
| Transportation and exchange gas receivable | (6,351) | (4,766) |
| Inventories | 2,987 | 11,351 |
| Prepaid gas purchases | 1,873 | 308 |
| Increase (decrease) in: | | |
| Payables | (22,416) | (49,045) |
| Transportation and exchange gas payable | (9,660) | 7,301 |
| Accrued liabilities | (4,705) | 886 |
| Reserve for rate matters | 668 | 29,867 |
| Deferred gas costs | 14,585 | (701) |
| Other, net | 18,735 | 2,942 |
| Net cash provided by operating activities | 9,370 | 52,479 |
| Cash flows from financing activities: | | |
| Retirement of long-term debt | (45,600) | (64,500) |
| Retirement of preferred stock | (3,064) | (4,593) |
| Advances from Transco | 454,328 | — |
| Retirements of advances from Transco | (454,328) | — |
| Capital contribution by parent | 36,048 | — |
| Dividends on preferred stock | (4,402) | (4,589) |
| Other, net | (216) | 5,288 |
| Net cash used in financing activities | (17,234) | (68,394) |
| Cash flows from investing activities: | | |
| Property, plant and equipment, net of equity AFUDC | (51,432) | (107,001) |
| Recoverable producer settlements | — | (30,089) |
| Recovery of producer settlements | 30,429 | 30,805 |
| Advances to Transco | (147,113) | (572,812) |
| Retirement of advances to Transco | 150,309 | 707,733 |
| Notes receivable | — | (16,000) |
| Other, net | 4,070 | (731) |
| Net cash provided by (used in) investing activities | (13,737) | 11,905 |
| Net decrease in cash and cash equivalents | (21,601) | (4,010) |
| Cash and cash equivalents at beginning of period | 23,928 | 7,403 |
| Cash and cash equivalents at end of period | $ 2,327 | $ 3,393 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest (net of amount capitalized) | $ 60,469 | $ 34,426 |
| Income taxes, net | 749 | 13,992 |

The accompanying condensed notes are an integral part of these condensed financial statements.

## TRANSCONTINENTAL GAS PIPE LINE CORPORATION
## NOTES TO CONDENSED FINANCIAL STATEMENTS

**A. Corporate Structure and Control**

Transcontinental Gas Pipe Line Corporation (TGPL) is a wholly-owned subsidiary of Transco Gas Company (TGC). TGC is a wholly-owned subsidiary of Transco Energy Company and, as used herein, the term Transco refers to Transco Energy Company and its wholly-owned subsidiaries unless the context otherwise requires.

The condensed financial statements have been prepared from the books and records of TGPL without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in TGPL's 1991 Annual Report on Form 10-K and included in the Form 10-Q for the quarter ended March 31, 1992 (First Quarter Form 10-Q).

Certain reclassifications have been made in the 1991 financial statements to conform to the 1992 presentation.

TGPL is a member of an operating group under the control of Transco and engages in transactions with other members of the group, characteristic of group operations. For consolidated cash management purposes, TGPL has made interest bearing advances to and received interest bearing advances from Transco. These advances are represented by demand notes. TGPL repaid advances received from Transco during the second quarter of 1992. As general corporate policy, the interest rate on intercompany demand notes is 1½% below the prime rate of Citibank, N.A. Also during the second quarter of 1992, TGPL received a capital contribution from Transco in the amount of $36 million.

Transco has a financing plan (Financing Plan), whereby Transco Energy Company is the principal financing entity for all subsidiary capital requirements. The Financing Plan provides Transco with greater financial flexibility, at equivalent costs, in managing the cash requirements of all its subsidiaries, including TGPL.

**B. Regulatory Matters**

There have been no new developments from those described in the 1991 Annual Report on Form 10-K and the First Quarter Form 10-Q with regard to the Transition Cost proceeding, except that the petitions for review of the Federal Energy Regulatory Commission's (FERC) January 15, 1992 order filed in the United States Court of Appeals for the D.C. Circuit (D.C. Circuit) have been transferred to the United States Court of Appeals for the Fifth Circuit (Fifth Circuit) and consolidated with the petitions for review of such order filed in the Fifth Circuit.

*Rate matters.* On June 4, 1992, the FERC issued its final order on rehearing TGPL's Rate Settlement and GIC Settlement (Docket No. RP90-8). No parties filed for rehearing of the June 4, 1992 order and that order became effective and no longer subject to rehearing on July 6, 1992. As a result, on August 5, 1992, TGPL made refunds to its customers of approximately $102 million, including interest, for differences between filed rates and settlement rates. TGPL had provided a reserve for these refunds.

On March 2, 1992, TGPL filed with the FERC a general rate case and a certificate application to implement an incentive ratemaking program. The general rate case filing (Docket No. RP92-137) proposes an annual increase in revenues of $234 million, based primarily on increases in operating and maintenance costs, including those associated with additional services provided to TGPL's markets since its last general rate case filing and increased cost of capital. The filing also includes changes in rate design and an increase in rate base resulting from additional plant and higher working capital requirements.

The certificate application to implement an incentive ratemaking program, filed as a Section 7(c) certificate application (Docket No. CP92-378) is designed to be consistent with recent FERC decisions to move toward market-driven rate structures and away from cost-based rate design.

The general rate case filing and the incentive ratemaking certificate application include:

- Use of straight fixed-variable (SFV) rate design, which is consistent with the FERC's recently issued Order 636 discussed below under *Other Regulatory Matters*. Under the SFV approach, all fixed costs, including return on equity and associated taxes, are included in the demand charge component (a fixed monthly charge) and only variable costs will be recovered through a commodity charge on volumes transported each month. Under SFV, pipelines will be able to recover all fixed costs allocable to firm transportation regardless of the volume of gas that is actually transported.
- An incentive ratemaking program on the TGPL system based on a "yardstick competition" approach, which sets rates based on an average cost of service for TGPL's competitors. TGPL would be allowed to recover in its transportation rates industry average costs for certain major cost categories. This approach, using the costs of other pipelines to set rates, creates incentives for TGPL to lower costs and improve services. A "fail-safe" mechanism would help ensure that the new program does not result in either excessive or deficient revenues by establishing a "zone of reasonableness" for operating income based on a target rate of return. If actual operating income falls outside the zone of reasonableness, the excess or deficit would be shared with customers. Rates would be adjusted annually to reflect changes in competitors' average cost.
- A secondary capacity market created through programs to handle both assignment and release of firm capacity. Under the capacity assignment program, market-area firm transportation (FT) capacity holders could trade or sell their contract rights in a price-deregulated secondary market. Under the capacity release program, TGPL could purchase FT capacity from such holders at negotiated prices and resell it at unregulated rates.

On April 9, 1992, the FERC accepted the general rate case filing and suspended the effectiveness of the proposed rates until September 1, 1992. The FERC also set the issue of rate of return for an expedited hearing with the contemplation that a final determination could be made on that component of the rate case before September 1992, when the new rates may be placed in effect. The expedited hearing proceeded before an Administrative Law Judge (ALJ) on June 10, 1992. At the conclusion of the hearing on June 12, 1992, TGPL reached an agreement with the FERC staff on a settlement proposal on the rate of return issue. The agreement provided for a pre-tax return on rate base of 15.4% compared to the current pre-tax return on rate base of 14.5% provided in TGPL's general rate case settlement in Docket No. RP90-8. Certain other parties opposed the settlement. Under this proposed settlement, TGPL's annual increase in revenues would be reduced by approximately $42 million from the filed $234 million. The ALJ declined to certify this settlement to the FERC and on July 10, 1992, the ALJ issued an initial decision which would establish an allowed rate of return lower than that requested by TGPL and would be based on TGPL's capital structure rather than Transco's consolidated capital structure. Such lower rate of return would result in a pre-tax return on rate base of 14.1%. If the ALJ decision is accepted by the FERC and such rates are placed in effect, TGPL's annual increase in revenues would be reduced by approximately $62 million from those originally proposed. TGPL and certain other parties have filed exceptions to the ALJ decision before the FERC. A FERC decision on the rate of return issue is expected before September 1992. Subject to the final resolution of the rate of return issue and a technical conference on certain other issues, the new rates will become effective September 1, 1992, subject to refund.

On March 11, 1992, TGPL submitted a tariff filing (Docket No. RP92-108) to the FERC proposing rolled-in rate treatment of the Mobile Bay facilities to replace the incremental rates currently being charged

on the Mobile Bay line. In addition, the filing proposes a rate design for the Mobile Bay facilities that is consistent with the change to SFV rate design included in TGPL's general rate case.

Order 636 allows pipelines to file to consolidate relevant proceedings with their Order 636 compliance filing proceedings. Therefore, on April 29, 1992, TGPL filed a motion to (1) consolidate its rate case (Docket No. RP92-137), its rate design case related to its Mobile Bay facilities (Docket No. RP92-108) and its incentive rate filing (Docket No. CP92-378) with its Order 636 compliance filing (see Order 636 below) and (2) vacate the expedited procedures established for the general rate case and rate design case.

On May 28, 1992, the FERC issued an order granting in part and denying in part TGPL's motion. The May 28 order granted TGPL's motion with respect to certain aspects of TGPL's pending rate case in Docket No. RP92-137, including the change to the SFV rate design method and all other rate design and cost allocation issues, as well as TGPL's rate design proposals in Docket No. RP92-108 to establish an interruptible pooling service rate schedule and to roll-in the costs of the Mobile Bay onshore facilities with TGPL's system-wide cost of service. These issues will now be resolved in the Order 636 proceeding. The FERC denied TGPL's motion with respect to the cost of service issue in Docket No. RP92-137, finding that a decision on TGPL's filed rate of return should be reached as soon as possible, and that it is unnecessary to consolidate the other cost of service issues with TGPL's Order 636 proceeding. The May 28 order reestablished an expedited hearing schedule for the rate of return issue. Pursuant to this schedule, as discussed above, the initial decision from the ALJ was issued on July 10, 1992. The May 28 order set the remaining cost of service issues on a 15-month hearing schedule. The FERC also decided that certain tariff changes proposed by TGPL could be resolved by a technical conference. The May 28 order also denied TGPL's request for consolidation with respect to its incentive ratemaking and capacity release proposals, finding that it would be premature to consolidate TGPL's incentive ratemaking proposal while the FERC is analyzing comments received on its proposed policy statement on incentive rates and that TGPL's capacity release proposal already has been addressed by the FERC's companion order to Order 636.

*Fuel retention proceedings.* On February 23, 1989, the FERC issued an order which found, among other things, that TGPL had overcollected for fuel from transportation customers during the period April 1, 1984 to April 1, 1987. The order required TGPL to refund the difference between the amount collected and the rate allowed for fuel retention. Accordingly, TGPL made refunds to customers of approximately $35 million, including interest. Some customers challenged the amount of refunds, claiming that the assumption or basis on which TGPL calculated the refunds yielded amounts lower than they otherwise should have been. On February 6, 1992, the FERC issued an order requiring TGPL to recalculate the amount of refunds and to make additional refunds, if necessary, plus interest for the period from April 1, 1984 to April 1, 1987 within thirty days following the issuance of the order. The FERC subsequently extended the time to make such refunds to August 17, 1992. TGPL requested rehearing of the February 6, 1992 order and on July 24, 1992, the FERC denied such request for rehearing and directed TGPL to file by August 24, 1992 a refund plan with the FERC which must describe TGPL's proposed disposition of the refunds and show in detail the calculations used to derive the amount of the refund owed. Pursuant to the July 24 order, TGPL's obligation to make refunds was stayed until after the FERC has acted on TGPL's refund plan. Under the revised calculation, TGPL anticipates that additional refunds of approximately $8 million, including interest, will be required. TGPL has provided a reserve to cover the refunds that would result from the order.

*Other Regulatory Matters*

There have been no new developments from those described in the 1991 Annual Report on Form 10-K and the First Quarter Form 10-Q with regard to Order 500 and Order 528.

*Order 94-A.* In 1983, the FERC issued Order 94-A, which permitted producers to collect certain production-related costs from pipelines on a retroactive basis. The FERC subsequently issued orders allowing several pipelines, including TGPL, to bill their customers for such production-related costs through fixed

monthly charges based on a customer's historical purchases. In February 1990, the D.C. Circuit Court ruled that the FERC's authorization for pipelines to directly bill production-related costs to customers based on gas purchased in prior periods violated the "filed rate doctrine" and remanded it to the FERC.

TGPL's GIC Settlement, as described in the 1991 Annual Report on Form 10-K, contains a provision pursuant to which TGPL's customers, with the exception of Columbia Gas Transmission Corporation (Columbia), have agreed not to contest the Order 94-A payments previously made by them. TGPL had billed to and recovered from Columbia approximately $7 million of Order 94-A costs. Columbia claims that TGPL should refund these costs, plus interest, pending a determination by the FERC of the appropriate Order 94-A costs, if any, to be paid by Columbia. The FERC denied Columbia's request but directed TGPL to initiate a separate proceeding to resolve the issue between TGPL and Columbia. Columbia has filed a petition for review of the FERC's order with the D.C. Circuit Court. TGPL has obtained permission from the court overseeing Columbia's bankruptcy petition to initiate the proceeding at the FERC. TGPL made a filing with the FERC on March 31, 1992 to initiate that proceeding.

*Orders 636 and 636-A.* On April 8, 1992, the FERC issued Order 636, its final rule in the Mega-NOPR proceedings. Order 636 makes fundamental changes in the way natural gas pipelines will conduct their business. The FERC's stated purpose of Order 636 is to improve the competitive structure of the natural gas pipeline industry by, among other things, unbundling a pipeline's merchant role from its transportation services. Under such order, pipelines will be required to ensure "equality" of transportation services between customers purchasing gas from such pipeline and those purchasing gas from other suppliers. Order 636 also requires open-access pipelines to provide firm shippers on downstream pipelines with access to storage facilities and to transportation capacity held by downstream pipelines on upstream pipelines, to ensure that all shippers have access to all sources of gas in the same manner as customers purchasing gas from pipelines. In addition, Order 636 requires pipelines to offer a "no-notice" firm transportation service that is intended by the FERC to be equal in quality to the transportation component of the bundled sales service previously rendered by pipelines. Order 636 authorized pipelines to charge appropriate reservation charges or fees for such new firm services.

Order 636 also changed the rate design methodology used for pipeline transportation rates from modified fixed variable to SFV, unless the pipeline company and its customers, with FERC approval, agree to a different form of rate design. Under the SFV methodology, all fixed costs, including return on equity and associated taxes, will be included in the demand charge (a fixed monthly charge) and only variable costs, such as fuel, will be recovered through a commodity charge applied to volumes transported each month. Under the SFV methodology, pipelines will be able to recover all fixed costs regardless of the volume of gas that is actually transported.

Once the initial restructuring proceedings are complete, Order 636 provides for pregranted abandonment of pipeline service obligations upon termination of the underlying transportation or sales contracts, with only one exception. The exception applies to long-term firm transportation contracts, *i.e.*, transportation contracts of over one year in duration. With long-term firm transportation contracts, the customer has a right of first refusal which permits the existing customer to retain its capacity rights by matching the price and terms offered for that capacity by a third party. Order 636 requires pipelines to implement a new capacity reallocation mechanism so that firm shippers can release unwanted capacity, on a temporary or permanent basis, to those desiring capacity. This program is intended to facilitate a secondary market in firm pipeline capacity.

The FERC recognized that there would be costs associated with compliance under Order 636 and that pipelines should be allowed to recover such costs. Order 636 refers to these costs as "transition costs" and sets forth methods for recovery by pipelines of four types of transition costs that pipelines may incur as a result of the rulemaking. First, existing unrecovered gas costs will be recovered through direct billing of pipeline customers. Second, gas supply "realignment costs", *i.e.*, those costs incurred to conform post-restructuring

gas supply with customer demand after unbundling, are eligible for 100% recovery to the extent prudently incurred. Third, the cost of stranded pipeline investment resulting from restructuring will be eligible for recovery in the pipeline's first post-restructuring rate case. Fourth, any costs of new facilities required because of the transition will also be eligible for recovery in the pipeline's first post-restructuring rate case.

Order 636 requires that each pipeline go through a restructuring proceeding in which the pipeline, its customers, and other interested parties will fashion the detail of such pipeline's arrangements to implement the provisions of the final rule.

On August 3, 1992, the FERC largely reaffirmed Order 636 in its issuance of Order 636-A. However, Order 636-A did include some modifications from the original order, including provisions that pipelines:

- Maintain their one-part volumetric rates, computed on an imputed load factor, on a permanent basis for transportation service to small customers.
- Offer to sell gas on an unbundled basis to small customers at a cost-based rate, for a one-year period.
- Provide a capacity release program. However, such program must permit capacity releases for periods of less than one calendar month without prior posting for bids on the electronic bulletin board.
- Recover 10% of their gas supply realignment transition costs through Part 284 interruptible transportation (IT) rates (compared to 100% recovery through a reservation fee surcharge in Order 636). The collection of such transition costs through IT rates would not be a surcharge, but would be reflected in the calculation of IT rates. The FERC states that it does not intend for pipelines to have to absorb the portion of those transition costs assigned to IT transportation, and encourages the parties to be creative in fashioning rate mechanisms, such as true-up mechanisms, that provide a reasonable opportunity for pipelines to recover (but not to overrecover) these costs.
- Use the SFV methodology for rate design and cost allocation proposals, but also consider the use of other ratemaking techniques to design rates which result in equitable treatment of customers with varying load factors.

Order 636-A also makes numerous other modifications and clarifications to Order 636 in response to requests for rehearing filed by various parties. Certain parties may request a rehearing with the FERC of the provisions contained in Order 636-A.

TGPL has made substantial progress toward implementing the various changes required by Order 636 and is intent on completing its restructuring under Order 636 as expeditiously as possible. TGPL has provided to its customers and other interested parties an outline of its proposal for restructuring. TGPL will continue to meet with customers and other interested parties to discuss open issues. TGPL must make a compliance filing with the FERC on or before December 31, 1992.

TGPL now provides unbundled sales and transportation services to its customers designed to achieve the FERC's stated goal of comparability between sales and transportation services, thus permitting customers full flexibility in choosing the scope of sales, transportation and storage services to be provided by TGPL. However, TGPL is not yet in full compliance with Orders 636 and 636-A. TGPL anticipates further discussions with the FERC, suppliers, customers and other interested parties to resolve the remaining issues. Those remaining issues include rate design (including rate design issues on its Mobile Bay facilities), assignment and release of firm capacity and standards for dealings between the pipeline as merchant and the pipeline as transporter. Transco believes that TGPL's rate settlement and gas inventory charge settlement approved by the FERC in June 1991 meet many of the requirements set forth in Orders 636 and 636-A and thus TGPL does not expect to be subject to significant transition costs.

**C. Legal Proceedings**

There have been no new developments from those described in the 1991 Annual Report on Form 10-K and the First Quarter Form 10-Q with regard to producer contract litigation or other litigation and claims with the exception of developments as described below.

*Producer Contract Litigation*

TGPL settled one of its remaining producer contract disputes that involved a declaratory judgment action filed by TGPL in a Texas state court and a suit subsequently filed by the producer in a Louisiana state court. The producer was asking that TGPL be required to perform under the terms of the contract. Pursuant to the settlement, TGPL agreed to pay that producer approximately $5 million for resolution of gas pricing issues and other matters related to prior periods and agreed to perform under the terms of the contract as clarified by the settlement.

*Other Litigation and Claims*

In October 1990, Dakota Gasification Company (Dakota), the owner of the Great Plains Coal Gasification Plant, filed suit in the United States District Court in North Dakota against TGPL and three other pipeline companies alleging that TGPL and the other pipelines had not complied with their respective obligations under certain gas purchase and gas transportation contracts. Specifically at issue is the proper price to be paid by TGPL and the other pipelines for synthetic gas since August 1989, the proper rate to be charged by Dakota for transportation through the Great Plains pipeline since October 1987, and the proper quantity for synthetic gas required to be taken-or-paid for by TGPL and the other pipelines.

In November 1990, TGPL filed suit in U.S. District Court in Houston, Texas seeking to compel Dakota to arbitrate the disputes under the gas purchase and gas transportation contracts in Houston. In January 1991, the U.S. District Court in North Dakota dismissed the case filed in such court, ruling that the gas purchase and gas transportation contracts at issue provided that disputes under such contracts be arbitrated by the parties. On January 4, 1991, the U.S. District Court in Houston, Texas issued an order compelling arbitration between TGPL and Dakota on the above discussed issues. Each of the other three defendant pipelines has similarly initiated separate arbitration proceedings with Dakota, involving the same issues. In February 1991, Dakota appealed the decision of the U.S. District Court in North Dakota to the United States Court of Appeals for the Eighth Circuit (Eighth Circuit).

In July 1992, the Eighth Circuit overturned the decision of the U.S. District Court in North Dakota and issued its mandate to such court requiring that a trial be held in the matter. TGPL intends to file a petition for certiorari with the Supreme Court to overturn the Eighth Circuit's decision and require the dispute with TGPL to be resolved only by arbitration in Houston, Texas. Pending a ruling by the Supreme Court, TGPL intends to vigorously defend the suit in the U.S. District Court in North Dakota, but also to continue with its arbitration of the matter in Houston, Texas.

Because the proper gas price under TGPL's gas purchase contract with Dakota is derived from a formula involving the weighted average prices paid for certain natural gas purchased by TGPL, and is further the average of each of such prices calculated for each of the four pipeline purchasers, it is not feasible at this time to quantify the amount of any claim or counter-claim by either TGPL or Dakota. While Dakota had indicated that it intends to pursue a higher damage amount, it has invoiced TGPL for $4.1 million, plus interest, in back transportation charges and for additional price claims in a lesser amount. Although no assurance can be given, based upon its analysis to date, TGPL believes that a determination of the correct transportation charge will result in a refund to TGPL from the rates currently being paid and that the ensuing litigation and/or arbitration will determine that TGPL has substantially complied with its obligations under the contract.

*Challenger Minerals, Inc. Litigation*

On May 7, 1992, TGPL and Challenger Minerals, Inc. (Challenger) entered into a Settlement Agreement to settle all matters in controversy between them, including, but not limited to, all claims and causes of action which were asserted or which might have been asserted in the lawsuit. In settling this litigation, TGPL agreed to pay to Challenger $20 million in cash; to execute and deliver to Challenger a promissory note with a principal amount of $20 million, payable in eight quarterly installments of $2.5 million from October 1, 1993 through July 1, 1995 and secured by units of Transco Exploration Partners, Ltd. owned by a subsidiary of Transco (which may be replaced with other substitute collateral); and to issue shares of Transco common stock with a market value of $15 million to Challenger in 1994. Transco has placed 1,500,000 shares of Transco common stock in escrow. The number of shares ultimately released to Challenger will be determined by dividing $15 million by Transco's average common stock price during January 1994, subject to certain adjustments, with Challenger receiving a minimum of 750,000 shares.

The accompanying financial statements include a charge during the first quarter of 1992 of $31.0 million, $19.5 million after tax, to increase the reserve for producer settlements, legal and regulatory issues to reflect the final costs of the Settlement Agreement.

*Environmental Matters*

TGPL is subject to extensive federal, state and local environmental laws and regulations which affect its operations related to the construction and operation of pipeline facilities. Appropriate governmental authorities may enforce these laws and regulations with a variety of civil and criminal enforcement measures, including monetary penalties, assessment and remediation requirements and injunctions as to future compliance. Except for the discussion below there have been no new material developments from those described in the 1991 Annual Report on Form 10-K with regard to environmental matters.

Since 1989, TGPL has been involved in discussions with the Pennsylvania Department of Environmental Resources (PADER) concerning environmental conditions at TGPL's operating sites in Pennsylvania. These discussions have resulted in the execution of a consent order and agreement between PADER and TGPL. Pursuant to the consent order and agreement, TGPL has agreed to conduct an environmental assessment and remediation program at its Pennsylvania sites, fund certain beneficial environmental projects, pay oversight costs and pay a $425,000 civil penalty. The estimated costs of the environmental assessment and remediation programs are included in TGPL's reserve for environmental costs.

D. Financing

*Restrictive covenants.* Transco is the principal financing entity for subsidiary capital requirements, including those of TGPL. Certain of Transco's credit facilities and indentures prohibit TGPL from, among other things, guaranteeing any additional indebtedness, further borrowings, except for indebtedness incurred to refinance existing indebtedness, issuing preferred stock or advancing cash to affiliates other than Transco. Further, certain of Transco's credit facilities and indentures contain restrictive covenants which limit Transco's ability to make additional borrowings and, therefore, to make or repay advances to TGPL.

Additionally, certain of TGPL's debt instruments restrict the amount of dividends distributable. As of June 30, 1992, approximately $185 million of TGPL's retained earnings of $295 million was available for distribution.

**Item 2.** ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The following discussion should be read in conjunction with the financial statements, notes and management's discussion contained in Items 7 and 8 of TGPL's 1991 Annual Report on Form 10-K and included in the 1992 First Quarter Form 10-Q and with the condensed financial statements and notes contained in this report.

**Introduction**

TGPL is an indirect wholly owned subsidiary of Transco and as such is affected by the financial position and performance of Transco and its subsidiaries other than TGPL.

During 1991, Transco's financial resources, liquidity and earnings were adversely affected by a high level of capital spending, unfavorable results related to certain regulatory and legal matters, particularly TGPL's Transition Cost proceeding, and lower commodity prices. Because of low oil, gas and coal prices, Transco experienced poor financial results from its commodity based businesses. Transco's financial resources, liquidity and earnings were also negatively affected by higher-than-expected costs and disappointing results from its coalbed methane project. The rejection in mid-September 1991 of bids received for an affiliate's interest in the West Chalkley property and the FERC's indication in late September that substantial refunds would likely be required in TGPL's Transition Cost proceeding resulted in a downgrade of Transco's long-term debt and preferred stock by rating agencies. Further, Transco continued to be burdened by the financial risks of the timing and ultimate outcome of pending litigation, particularly the Challenger litigation. This caused Transco to immediately undertake a comprehensive review of all of its businesses to determine what actions should be taken to improve its financial condition. As a result of this review, on October 30, 1991, Transco's Board of Directors approved a comprehensive strategic and financial plan designed to stabilize Transco's financial position, improve financial flexibility and restore earnings. The key elements of the plan include: a sharpened strategic focus on Transco's core businesses of gas pipelines (including TGPL), gas marketing and power generation; the development of exit strategies for non-core businesses; and the improvement of financial flexibility. The plan seeks to improve Transco's financial position, funding capabilities and earnings through a reduction in total debt, various capital conservation measures, asset divestitures and the sale of equity when appropriate.

Transco has made substantial progress in implementing the key elements of its comprehensive strategic and financial plan, including:

- resolution of TGPL's long standing litigation with Challenger in May 1992 thus eliminating the financial uncertainty associated with this claim;
- the sale of $300 million of long-term debt by Transco and refinancing $100 million of long-term debt by Texas Gas Transmission Corporation (Texas Gas);
- entering into definitive agreements for the sales of certain non-essential and non-core assets for proceeds which have totaled approximately $164 million to date;
- completion of a management realignment and elimination of approximately 575 employee positions, including one-fourth of all corporate and subsidiary officers;
- further reduction in Transco's announced 1992 capital expenditure budget from $252 million to $225 million;
- achievement of approximately $45 million of the targeted $65 million savings in working capital planned for 1992;
- taking control of the operation of the coalbed methane project and beginning to implement cost containment measures; and
- filing a new TGPL rate case with the FERC.

TGPL's implementation of its part of the Transco strategic and financial plan has resulted in a significant decrease in TGPL's budgeted 1992 capital spending from 1991 levels; a planned reduction of working capital

requirements; and a reduction in TGPL's workforce by approximately 275 employee positions. TGPL recorded reserves at December 31, 1991 totaling $120.6 million, $76.0 million after tax, for the anticipated costs associated with the execution of Transco's strategic and financial plan and to provide reserves for the resolution of certain pending legal and regulatory matters.

**Capital Resources and Liquidity**

*Method of Financing*

TGPL's working capital requirements are affected by the seasonal nature of gas sales. Because of this, TGPL's working capital position generally improves during the heating season, reflecting higher seasonal throughput. TGPL is a member of an operating group under the control of Transco and engages in transactions with other members of the group, characteristic of group operations. TGPL meets its working capital requirements by participation in the Transco consolidated cash management program pursuant to which TGPL both makes advances to and receives advances from Transco, and by accessing capital markets to refinance its long-term debt maturities. As general corporate policy, the interest rate on intercompany demand notes is 1½% below the prime rate of Citibank, N.A. At June 30, 1992, there were no outstanding advances between TGPL and Transco.

In addition, TGPL and Transco's other subsidiaries pay dividends, based on the level of their earnings and net cash flow, to provide the funds necessary for Transco to service its debt and pay dividends on its common and preferred stock.

While all of the elements of Transco's strategic and financial plan have not been implemented, Transco believes that the successful implementation to date of the elements of the plan described above will provide Transco and its subsidiaries with access to debt and equity markets on acceptable terms in order to satisfy their funding needs, including capital expenditures, dividends, rate and regulatory refunds and seasonal working capital requirements.

To meet its funding requirements, on July 1, 1992, Transco sold $300 million of 11¼% notes due July 1, 1999 (Transco Notes). The Transco Notes are general unsecured obligations of Transco and are equal in rank to Transco's existing senior debt. Approximately one-half of the net proceeds from the sale were used to retire amounts outstanding under the $150 million term loan portion of the Transco Bank Credit Facility with the balance used for general corporate purposes, including the repayment of $148.7 million of short-term debt under the working capital line of the Transco Bank Credit Facility. The sale of the Transco Notes provides Transco with significantly improved financial flexibility and adequate borrowing capacity to meet Transco's cash requirements, including seasonal working capital needs.

TGPL has $125 million of 9.40% extendible notes which must be repriced or refinanced in September 1992 (Extendible Notes). TGPL expects that it will be able to refinance the Extendible Notes in the public markets. On August 14, 1992, TGPL will file a registration statement with the SEC providing for the issuance of $125 million of notes (Notes). However, if needed to refinance the Extendible Notes, TGPL could borrow funds under its back-up facility that would provide a three-year term loan to TGPL of $125 million, or Transco could borrow funds under the Transco Bank Credit Facility.

On July 6, 1992, the FERC's order with regard to TGPL's general rate case settlement in Docket No. RP90-8 became effective and no longer subject to rehearing. As a result, on August 5, 1992, TGPL refunded approximately $102 million to its customers. TGPL had provided a reserve for this refund. Accordingly, the refund had no impact on earnings but did require cash payments that were funded through an advance from Transco to TGPL.

Transco and TGPL believe that the aggregate of cash flows from operating activities, the recovery of producer settlement costs from customers and the benefits of the steps under Transco's strategic and financial plan, supplemented by the sale of the Notes, and by borrowings under the working capital line of the Transco Bank Credit Facility and the ongoing sale and disposition of assets, will provide Transco and TGPL with sufficient liquidity to meet their capital requirements, including Transco's ability to advance funds to TGPL.

*Capitalization and Cash Flows*

As shown in the accompanying Condensed Statement of Cash Flows, TGPL's net cash outflows during the first six months of 1992 totaled $22 million for operating, financing and investing activities resulting primarily from refunds made to customers in connection with the Transition Cost proceeding, producer settlement payments, retirement of long-term debt and the capital spending requirements for 1992. Funding of the cash requirements for operating, financing and investing activities including capital expenditures has been provided primarily through a capital contribution from Transco and, to a lesser extent, through recoveries of producer settlement costs.

Further, during the first six months of 1992 equity increased reflecting a capital contribution from Transco. As shown in the following table, the decrease in debt and the increase in equity have resulted in a decrease in total debt as a percentage of total invested capital.

| | June 30, 1992 | December 31, 1991 |
|---|---|---|
| | (In millions) | |
| Common Stockholder's Equity | $ 486.0 | $ 425.6 |
| Preferred Stock | 102.2 | 105.2 |
| Long-term Debt, less Current Maturities | 665.6 | 686.1 |
| Total Capitalization | 1,253.8 | 1,216.9 |
| Current Maturities of Long-term Debt | 39.6 | 44.6 |
| Total Invested Capital | $1,293.4 | $1,261.5 |
| Long-term Debt, less Current Maturities as a Percentage of Total Capitalization | 53.1% | 56.4% |
| Common Stockholder's Equity as a Percentage of Total Capitalization | 38.8% | 35.0% |
| Total Debt as a Percentage of Total Invested Capital | 54.5% | 57.9% |

One of the long-term goals of the strategic and financial plan is the continued reduction in the percentage of total debt to total invested capital.

| | Six Months Ended June 30, | |
|---|---|---|
| | 1992 | 1991 |
| | (In millions) | |
| Cash Flows From Operating Activities | $ 9.4 | $52.5 |

For the six months ended June 30, 1992, cash flows from operating activities were $43.1 million lower than the six months ended June 30, 1991. The primary reasons for the decrease were TGPL's cash refunds made in connection with the Transition Cost proceeding and the amount and timing of TGPL's net collections of amounts subject to refund under current rate filings. These negative effects were partially offset by lower 1992 cash payments for gas purchases.

| | Six Months Ended June 30, | |
|---|---|---|
| | 1992 | 1991 |
| | (In millions) | |
| Cash Flows Used In Financing Activities | $(17.2) | $(68.4) |

The cash flows used in financing activities for the six months ended June 30, 1992 were primarily attributable to the retirement of $46 million of TGPL's long-term debt, partly offset by $36 million capital contribution from Transco. Also included were dividend payments of $4 million on preferred stock.

For the six months ended June 30, 1991, cash flows used in financing activities included the retirement of $65 million of TGPL's long-term debt and dividend payments of $5 million on preferred stock, partly offset by the collection of $6 million of receivables from affiliates for construction expenditures incurred by TGPL as construction agent for the affiliates.

| | Six Months Ended June 30, | |
|---|---|---|
| | 1992 | 1991 |
| | (In millions) | |
| Cash Flows From (Used In) Investing Activities | $(13.7) | $11.9 |

For the six months ended June 30, 1992, cash flows used in investing activities were primarily for capital expenditures for property, plant and equipment, partly offset by the recovery of producer settlement costs and a net decrease in advances to Transco.

For the six months ended June 30, 1991, cash flows from investing activities resulted primarily from a net decrease in advances to Transco and the recovery of producer settlement costs, net of recoverable producer settlement payments, partly offset by capital expenditures for property, plant and equipment and a note receivable accepted by TGPL, related to a take-or-pay settlement, in consideration for the conveyance of certain interests in a gas field and related processing plant to the producer.

At June 30, 1992, TGPL had a working capital deficit of $283 million, compared to a deficit of $321 million at December 31, 1991. The most significant factors influencing TGPL's working capital deficit are the current obligations related to the reserves established for producer settlements, legal and regulatory issues and for rate matters. Working capital requirements also are generally influenced by the seasonal nature of the gas industry.

| Capital Expenditures | Six Months Ended June 30, | |
|---|---|---|
| | 1992 | 1991 |
| | (In millions) | |
| Market Projects | $25.6 | $ 46.3 |
| Supply Projects | 12.8 | 18.3 |
| Maintenance of Existing Facilities and Other Projects | 13.0 | 42.4 |
| Total Capital Expenditures | $51.4 | $107.0 |

The 1992 decrease in capital spending reflects the implementation of the strategic and financial plan as previously discussed.

TGPL's 1992 capital expenditures included $25 million for market area expansion, primarily for the TGPL/Texas Gas/CNG and the TGPL System Expansion projects, compared to $46 million in 1991; $13 million for supply projects primarily for the Eminence Storage Field, compared to $18 million in 1991; and $13 million for maintenance of existing facilities and other projects, compared to $42 million in 1991.

**Capital Requirements and Contingencies**

TGPL's capital requirements and contingencies are discussed in TGPL's 1991 Annual Report on Form 10-K. Other than as described below, there have been no new developments from those described in TGPL's 1991 Annual Report on Form 10-K with regard to capital requirements and contingencies.

TGPL and Challenger have reached a settlement of the litigation between them as discussed in Note C. Also, as discussed in Note B, TGPL has filed to recover additional Order 94-A costs from Columbia, the FERC has issued its final rule in the Mega-NOPR proceeding to restructure pipeline service arrangements and on August 5, 1992, TGPL made refunds to its customers of approximately $102 million, including interest, for differences between filed rates and settlement rates. See the referenced notes for a discussion of the developments related to these issues.

TGPL's change in accounting method for postretirement benefits other than pensions will require the recognition of obligations for postretirement benefits that exist at the date of adoption of the new accounting method to be recognized either at adoption or over future periods and is expected to increase TGPL's reported annual cost of providing these benefits to employees. TGPL believes that all costs of providing postretirement benefits to its employees are necessary and prudent operating expenses that will be recoverable in rates. Therefore, although no assurances can be given, TGPL does not expect adoption of the new accounting method to have a material effect on its financial position or results of operations. However, should the FERC not issue an order that would provide for the deferral of the difference between postretirement benefit costs as determined under Statement of Financial Accounting Standards No. 106 and such costs being recovered in rates, then that difference would be reflected in TGPL's net income which would reduce such net income from current levels.

**Conclusion**

Transco and TGPL believe that the aggregate of cash flows from operating activities, the recovery of producer settlement costs from customers and the benefit of the steps under Transco's strategic and financial plan, supplemented by the sale of the Notes and by borrowings under the working capital line of the Transco Bank Credit Facility and the ongoing sale and disposition of assets, will provide Transco and TGPL with sufficient liquidity to meet their capital requirements, including Transco's ability to advance funds to TGPL.

**Results of Operations**

The table below shows the results of operations for the periods presented and the effects of certain items that have impacted these results.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1992 | 1991 | 1992 | 1991 |
| | (In millions) | | | |
| Net Income Before Selected Items | $19.1 | $10.4 | $ 41.4 | $33.3 |
| Challenger litigation settlement | — | — | (19.5) | — |
| Provision for producer settlements, legal and regulatory issues | — | (6.3) | — | (6.3) |
| Provision for asset impairments | — | (6.3) | — | (6.3) |
| Benefits of resolution of certain rate issues | — | 2.8 | — | 2.8 |
| Net Income | $19.1 | $ 0.6 | $ 21.9 | $23.5 |

*Operating and Net Income.* Excluding the net income impact of the selected items shown above, TGPL's net income for the three months and six months ended June 30, 1992 was $8.7 million and $8.1 million higher than the same periods in 1991, respectively. The increase in net income is primarily the result of TGPL's higher volumes from long-haul IT, higher rate realizations and revenues from incremental projects which went into service in late 1991. TGPL's long-haul IT volumes increased as a result of cooler weather in 1992 compared to 1991. TGPL placed the first phase of the TGPL/Texas Gas/CNG project, the South Virginia Lateral expansion, the first phase of the TGPL System Expansion project and the IEC Cogen project into service in November 1991. Excluding the pre-tax effects of the selected items, TGPL's operating income for the three months and six months ended June 30, 1992 was $14.0 million and $17.9 million higher than the same periods in 1991, respectively, due to the same reasons that resulted in the net income variance.

Excluding the pre-tax effects of the selected items, TGPL's operating revenues increased $36 million for the three months ended June 30, 1992 when compared to the same period in 1991 as a result of the increased long-haul IT transportation volumes and revenues from incremental projects placed in service in late 1991.

For the six months ended June 30, 1992, excluding the pre-tax effects of the selected items, TGPL's operating revenues increased $6 million over the same period in 1991. The higher operating revenue variance for the second quarter 1992 compared to 1991 more than offset the lower operating revenue variance for the first quarter 1992 compared to 1991. The first quarter variance was due to lower gas sales revenues resulting

from a 19% decrease in sales volumes under the FS/IFS/IS programs, generally due to competition with other suppliers and a lower average commodity sales price. The decrease in sales volumes did not affect TGPL's operating or net income since gas purchases plus GIC fees were sufficient to meet producer obligations (see Sales Services below).

Excluding the pre-tax effects of the selected items and the cost of sales and transportation of $122 million and $244 million in 1992 and $103 million and $255 million in 1991 for the three months and six months ended June 30, respectively, TGPL's operating expenses in 1992 were approximately $2 million higher for the second quarter 1992 compared to the same period in 1991, and $1 million lower for the first six months of 1992 compared to the same period in 1991. These variances resulted primarily from operation and maintenance expenses. TGPL's cost of sales and transportation decreased for the six months ended June 30, 1992 compared to the six months ended June 30, 1991 due to lower purchases of gas for sales under the FS/IFS/IS programs.

Pre-tax net interest expense for the three months and six months ended June 30, 1992 compared to the same period in 1991 was $1.4 million higher and $6.9 million higher, respectively, primarily due to lower interest income and lower amounts of capitalized interest, partially offset by slightly lower interest on long-term debt in 1992 compared to 1991.

*Transportation Services.* As shown in the table below, TGPL's total market area deliveries for the three months and six months ended June 30, 1992 were 26.0 and 63.1 billion cubic feet (Bcf), or 10% and 11%, higher than the same periods in 1991, respectively, generally due to weather being colder in the market area in 1992 compared to 1991 as well as increases in volumes related to the incremental projects placed in service in the fourth quarter of 1991. The lower production areas deliveries of 21.8 Bcf, or 16%, for the six months ended June 30, 1992 compared to 1991 generally were due to the competition with other interstate and intrastate pipelines and termination of certain agreements.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| TGPL System Deliveries (Bcf) | 1992 | 1991 | 1992 | 1991 |
| Market area deliveries: | | | | |
| Contract sales | — | — | — | 0.4 |
| Long-haul transportation | 194.4 | 207.7 | 422.9 | 453.7 |
| Market area transportation | 82.3 | 43.0 | 201.7 | 107.4 |
| Total market area deliveries | 276.7 | 250.7 | 624.6 | 561.5 |
| Production area transportation | 61.4 | 61.5 | 117.3 | 139.1 |
| Total system deliveries | 338.1 | 312.2 | 741.9 | 700.6 |

TGPL's facilities are divided into six rate zones. Three are located in the production area and three are located in the market area. Long-haul transportation is gas that is received in one of the production area zones and delivered in a market area zone. Market area transportation is gas that is both received and delivered within market area zones. Production area transportation is gas that is both received and delivered within production area zones.

*Sales Services.* Effective November 1, 1989, TGPL began making sales to customers through an Interim Firm Sales (IFS) program coupled with an interim firm transportation program as replacement for a contract sales quantity. The program gave customers the option to purchase daily quantities of gas from TGPL at market-responsive prices in exchange for a demand charge payment to TGPL designed to recover the costs of gas in excess of current month spot prices that TGPL is obligated to pay under its producer contracts. TGPL continued to operate under the IFS program until August 1, 1991 when it began operating under the Firm Sales (FS) program which essentially made permanent the business structure established under the IFS

program. The following table shows the sales under the IFS, FS and IS (Interruptible Sales) programs for the three months and six months ended June 30, 1992 and 1991.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1992 | 1991 | 1992 | 1991 |
| FS/IFS/IS sales (Bcf) | 46.1 | 50.5 | 105.1 | 123.5 |

Under the FS program, the demand fee associated with TGPL's above market gas costs is called the FS fee or Gas Inventory Charge (GIC). The GIC is designed to compensate TGPL for securing long-term gas supplies for customers electing to purchase sales service from TGPL.

## PART II — OTHER INFORMATION

**Item 1.** ***Legal Proceedings.***

See discussion of legal proceedings in Note C to the Condensed Financial Statements included herein.

**Item 2.** ***Other Information.***

None.

**Item 6.** ***Exhibits and Reports on Form 8-K.***

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANSCONTINENTAL GAS PIPE LINE CORPORATION

By /s/ N. A. BACILE
N. A. Bacile
Vice President and Controller

Dated: August 13, 1992